

CADDO SEWERAGE DISTRICT NO. 7

SHREVEPORT, LOUISIANA

DECEMBER 31, 2005 AND 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8-9-06

CADDO SEWERAGE DISTRICT NO. 7

SHREVEPORT, LOUISIANA

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Independent Auditor's Report

The Board of Commissioners
Caddo Sewerage District No. 7
Shreveport, Louisiana

I have audited the accompanying general purpose financial statements of Caddo Sewerage District No. 7, a component unit of Caddo Parish, Louisiana, as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Caddo Parish Sewerage District No. 7 as of December 31, 2005 and 2004, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Compensation paid Board members is presented for purposes of additional analysis and is not a required part of the basic financial statements of Caddo Sewerage District No. 7. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 1 through 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and do not express an opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 5, 2006 on my consideration of Caddo Sewerage District No. 7's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

 Richard C
McCallister

Richard C. McCallister
May 5, 2006

Digitally signed by
Richard C. McCallister
DN: cn=Richard C.
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REQUIRED SUPPLEMENTAL INFORMATION

CADDO PARISH SEWERAGE DISTRICT NO. 7
P. O. BOX 7606
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Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of the Caddo Parish Sewerage District No. 7 financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the District's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

The District's net assets increased by \$66,838 or 4.6%.

The District's total revenues were \$659,142 in 2005 compared to \$636,975 in 2004.

During the year ended December 31, 2005 the District had total expenses, excluding depreciation, of \$271,009 compared to \$281,758 in 2004.

USING THIS ANNUAL REPORT

This annual report consists of three parts; management's discussion and analysis, the basic financial statements, and required supplemental information. The statement of net assets provides long-term and short-term information about the District's financial status. The statements of revenue, expenses, and changes in net assets and statements of cash flows provide historical data on the District's business-like activities. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. Caddo Parish Sewerage District No. 7 is a component unit of the Parish of Caddo, Louisiana because the Parish must approve all officials appointed to the District's Board of Commissioners. The accompanying financial statements present information only on the funds maintained by the District.

FINANCIAL ANALYSIS OF THE DISTRICT

Net Assets

The following table summarizes the financial status of the District:

	Net Assets (in thousands of dollars)		
	2005	2004	% Change
Current and other assets	1,529	1,562	-2.11%
Capital assets	3,421	3,468	-1.36%
Total assets	4,950	5,030	-1.59%
Long-term debt outstanding	3,168	3,316	-4.46%
Other liabilities	266	265	0.38%
Total liabilities	3,434	3,581	-4.10%
Investment in capital assets	406	300	35.33%
Restricted	714	834	-14.39%
Unrestricted	396	315	25.71%
Total net assets	1,516	1,449	4.62%

Increases or decreases in the District's net assets are one indicator of whether its financial position is improving or deteriorating. The above changes reflect no substantial change in the District's financial position.

Changes in Net Assets

The following table summarizes the change in District's net assets:

Change in Net Assets (in thousands of dollars)			
	2005	2004	% Change
Revenues			
Fees and charges for service	659	637	3.45%
Property taxes	36	70	-48.57%
Interest income	20	10	100.00%
Total revenues	715	717	-0.28%
Expenses			
Sewer operations	271	284	-4.58%
Depreciation	186	184	1.09%
Interest expenses	191	199	-4.02%
Total expenses	648	667	-2.85%
Change in net assets	67	50	34.00%

The decrease in property tax income is the result of a reduction in the millage assessed to pay general obligation debt. A 8% rate increase was implemented January 1, 2006 which offsets increasing maintenance and rehabilitation costs. The Board is continuing to review fluctuations and is charged with maintaining a rate for its customer services that will cover the operations and debt service.

CAPITAL ASSETS

At the end of 2005, the District had invested \$3,421 thousand in capital assets, including land, sewer lines, treatment facilities, a vehicle, and equipment. This amount represents a net decrease of \$47 thousand, or 1%, over last year.

Capital Assets (Net of depreciation, in thousands of dollars)

	2005	2004	% Change
Land	38	38	0.00%
Sewer system	3,377	3,419	-1.23%
Machinery and equipment	6	11	-45.45%
Total	3,421	3,468	-1.36%

\$140 thousand in system expansion and rehabilitation was completed during 2005. There are \$72 thousand of funds set aside for smaller projects that will benefit the community in the future. Plans are in development to improve the system at an estimated cost of \$70 thousand in 2006.

LONG-TERM DEBT

At year-end the District had \$3,168 thousand in revenue and general obligation bonds outstanding, a decrease of 4.5% over last year, as shown in the following table.

Outstanding Bonds Payable (in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
General obligation bonds	340	379	-10.29%
Revenue bonds	<u>2,828</u>	<u>2,937</u>	<u>-3.71%</u>
Total	<u>3,168</u>	<u>3,316</u>	<u>-4.46%</u>

This financial report is designed to provide the constituents and taxpayers with a general overview of the finances for the funds maintained by the Caddo Sewerage District No. 7 and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's office at 4859 North Market, Suite 4, Shreveport, LA 71107.

FINANCIAL STATEMENTS

CADDO SEWERAGE DISTRICT NO. 7
STATEMENTS OF NET ASSETS
DECEMBER 31, 2005 AND 2004

ASSETS	<u>2005</u>	<u>2004</u>
<u>Current Assets</u>		
Cash and cash equivalents	365,432	271,800
Accounts receivable - Note 4	55,958	54,553
Prepaid expenses	<u>14,328</u>	<u>22,373</u>
Total current assets	<u>435,718</u>	<u>348,726</u>
<u>Noncurrent Assets</u>		
Restricted cash and cash equivalents		
Revenue sinking fund	76,386	72,913
Reserve sinking fund	267,127	266,030
Depreciation and contingency fund	269,222	257,032
Construction fund	71,291	185,814
Customer deposits and permits	8,380	5,705
Ad Valorem tax fund	55,765	46,445
DOTD sinking fund - Note 8	126,127	125,032
Certificate of deposit - customer deposits	72,500	70,000
Restricted accounts receivable - Note 2	39,062	71,083
Capital assets - Note 5	3,421,003	3,467,620
Deferred finance charges	<u>107,336</u>	<u>113,496</u>
Total other assets	4,514,199	4,681,170
Total assets	<u>4,949,917</u>	<u>5,029,896</u>

The accompanying notes are an integral part of these financial statements.

CADDO SEWERAGE DISTRICT NO. 7
STATEMENTS OF NET ASSETS
DECEMBER 31, 2005 AND 2004

LIABILITIES	<u>2005</u>	<u>2004</u>
<u>Current Liabilities (Payable from current assets)</u>		
Accounts payable	8,026	12,495
Accrued compensated absences	<u>3,643</u>	<u>-</u>
Total	<u>11,669</u>	<u>12,495</u>
<u>Current Liabilities (Payable from restricted assets)</u>		
Accrued interest - revenue bonds	31,352	32,443
Revenue bonds payable	114,500	109,500
Customer deposits and permits held	80,880	75,705
Accrued interest - general obligation bonds	6,309	6,861
General obligation bonds payable	38,000	39,000
Deduction from taxes - assessor	<u>1,279</u>	<u>2,302</u>
Total	<u>272,320</u>	<u>265,811</u>
Total current liabilities	<u>283,989</u>	<u>278,306</u>
<u>Noncurrent Liabilities</u>		
Revenue bonds payable - Note 7	2,713,000	2,827,500
General obligation bonds payable - Note 7	302,000	340,000
Loans payable - Louisiana DOTD - Note 8	<u>134,892</u>	<u>134,892</u>
Total long-term liabilities	<u>3,149,892</u>	<u>3,302,392</u>
Total liabilities	<u>3,433,881</u>	<u>3,580,698</u>
NET ASSETS		
Invested in capital assets, net of related debt	406,003	300,120
Restricted	713,540	834,243
Unrestricted	<u>396,493</u>	<u>314,835</u>
Total net assets	<u>1,516,036</u>	<u>1,449,198</u>

The accompanying notes are an integral part of these financial statements.

CADDO SEWERAGE DISTRICT NO. 7
STATEMENTS OF REVENUE, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>Operating Revenues</u>		
Fees and charges for services	659,142	636,975
<u>Operating Expenses</u>		
Personal services	98,404	85,659
Advertising, dues and subscriptions	417	804
Printing	1,025	859
Utilities	37,143	36,069
Communications	7,648	7,272
Rentals paid	6,575	6,300
Maintenance of property and equipment	63,347	90,010
Professional services	16,672	16,270
Insurance and surety bonds	29,243	28,074
Office expenses	2,913	3,651
Travel	7,303	4,180
Bad debts	319	2,610
Depreciation	186,170	184,264
Total operating expenses	457,179	466,022
Operating Income	201,963	170,953
<u>Non-Operating Revenue (Expense)</u>		
Interest income	19,792	10,345
Ad Valorem taxes	37,723	70,276
Tax assessor charges	(1,279)	(2,302)
Interest and fiscal charges	(191,361)	(198,786)
Total non-operating revenue (expense)	(135,125)	(120,467)
Change in net assets	66,838	50,486
Net assets-beginning of year	1,449,198	1,398,712
Net assets-end of year	1,516,036	1,449,198

The accompanying notes are an integral part of these financial statements.

CADDO SEWERAGE DISTRICT NO. 7
STATEMENTS OF CASH FLOW
INCREASE (DECREASE) IN CASH, AND CASH EQUIVALENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>Cash Flows From Operating Activities</u>		
Cash received from customers	657,418	637,650
Cash payments to suppliers for goods and services	(165,067)	(200,452)
Cash payments for personal services	(98,404)	(85,659)
Net cash provided by operating activities - Note 9	<u>393,947</u>	<u>351,539</u>
<u>Cash Flows From Non-Capital Financing Activities</u>		
Deposits received from customers	<u>5,175</u>	<u>(82)</u>
Net cash from non-capital financing activities	<u>5,175</u>	<u>(82)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Proceeds from Ad Valorem tax collections	67,442	52,302
Acquisition and construction of capital assets	(139,553)	(54,054)
Principal paid on revenue bonds	(109,500)	(108,500)
Interest paid on revenue bonds	(164,771)	(172,170)
Principal paid on general obligation bonds	(39,000)	(36,000)
Interest paid on general obligation bonds	(22,073)	(22,035)
Net cash used for capital and related financing activities	<u>(407,455)</u>	<u>(340,457)</u>
<u>Cash Flows From Investing Activities</u>		
Interest on investments	<u>19,792</u>	<u>10,345</u>
Net increase (decrease) in cash and cash equivalents	<u>11,459</u>	<u>21,345</u>
Cash and cash equivalents at beginning of year	<u>1,300,771</u>	<u>1,279,426</u>
Cash and cash equivalents at end of year - Note 3	<u><u>1,312,230</u></u>	<u><u>1,300,771</u></u>

The accompanying notes are an integral part of these financial statements.

CADDO SEWERAGE DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

INTRODUCTION

1. Caddo Sewerage District No. 7 was created by the Caddo Parish Commission and is a subdivision thereof. This report includes all funds controlled by Caddo Sewerage District No.7. The District is considered a component unit of the Caddo Parish Commission, and will be included in the Commission's financial report for 2005.
2. The District was formed to construct and operate a sewerage collection and treatment system north of Shreveport, Louisiana.
3. Its five Board members are appointed by the Caddo Parish Commission and are compensated \$60 each per meeting attended.
4. The District is located north of Shreveport, Louisiana.
5. The District serves approximately 1,750 customers.
6. The District employs four full-time employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements of the Caddo Sewerage District No. 7 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 14:514 and to the guides set forth in the *Louisiana Governmental Audit Guide*, and to the AICPA Industry Audit Guide, *Audits of State and Local Governmental Units*.

B. REPORTING ENTITY

Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. For financial reporting purposes, in conformance with GASB Codification section 2100, Caddo Parish Sewerage District No. 7 includes all funds that are within its oversight responsibility. The District is a component unit of the Caddo Parish Commission, the financial reporting entity. The Commission is financially accountable for

the district because it appoints a voting majority of the board and has the ability to impose its will on them.

The accompanying financial statements present information only on the funds maintained by the district and do not present information on the Commission, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

C. FUND ACCOUNTING

The Caddo Sewerage District is organized and operated on a fund basis whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprises its assets, liabilities, net assets, revenues and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Enterprise funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services or goods in connection with principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District's reporting on enterprise fund activities is based on FASB Statements and interpretations issued after November 30, 1989, except where they conflict or contradict GASB pronouncements.

The Enterprise Fund uses the following practices in recording certain revenues and expenses:

Revenues

Fees and charges for services are billed at the end of the month earned and are due by the 20th of the following month. This revenue is recorded as income in the month earned.

An Ad Valorem tax is levied in October each year for the fiscal year and becomes delinquent after December of the same year. Taxes are collected by the Caddo Parish Sheriff's office and forwarded to the District after removal of tax assessor charges. The revenue is recorded in the year levied.

Expenses

Operating expenses are recorded when incurred. Interest expense is accrued at the end of each period and included as expense.

E. CASH AND CASH EQUIVALENTS

Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits. The District considers time deposits and those investments with maturities of 90 days or less as cash equivalents. Under state law, the district may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

F. PREPAID ITEMS

Items paid in the current year benefiting future periods are set up as assets.

G. RESTRICTED ASSETS

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, other funds set aside for specific purposes are also classified as restricted. The District uses restricted resources to fund appropriations before using unrestricted resources.

H. CAPITAL ASSETS

Fixed assets of the District are included on the balance sheet of the fund at cost. Interest costs incurred during construction are not capitalized. Constructed systems are being depreciated on a straight-line basis of 35 years. Existing systems purchased in 1985 for \$149,950 are being depreciated on a straight-line basis of 25 years. The district capitalizes all capital assets that are \$250 or greater.

I. DEFERRED FINANCE CHARGES

In conjunction with refunding bond issues, refinancing costs were incurred. These costs are amortized on a straight-line basis over the term of the new bond issues. Included in interest expense for the years ended December 31, 2005 and 2004, was amortization of these costs of \$6,160 each year.

J. COMPENSATED ABSENCES

The District has adopted a leave policy as to vacation and sick pay. The policy provides full-time employees to accumulate earned vacation. Employees must use their earned time or it is lost at the anniversary of their hire date. Earned vacation may be paid in cash upon termination of the employee. The policy also provides full-time employees sick/personal leave. Unused sick leave accumulates and may be carried forward indefinitely. The District does not pay for unused sick leave upon termination. Accrued vacation and sick pay is reported in the financial statements.

K. LONG-TERM LIABILITIES

Long-term liabilities are recognized within the Enterprise Fund.

L. USE OF ESTIMATES

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

2. LEVIED TAXES

An Ad Valorem tax is levied in October each year for the fiscal year and becomes delinquent after December of the same year. Taxes are collected by the Caddo Parish Sheriff's office and forwarded to the District after removal of tax assessor charges. Ad Valorem tax revenue is recognized when levied.

	<u>2005</u>	<u>2004</u>
Assessed valuation within District – net	8,097,220	7,631,850
Millage	<u>5.0</u>	<u>9.5</u>
Taxes levied	<u>40,486</u>	<u>72,507</u>
Estimate of uncollectibles	<u>(1,424)</u>	<u>(1,424)</u>
Accounts receivable – Ad Valorem	<u><u>39,062</u></u>	<u><u>71,083</u></u>

Ad Valorem taxes are assessed to retire the general obligation bonds of the District. The District has \$94,827 in net current assets at December 31, 2005 to cover \$54,300 in 2006 maturing principal and interest. Based on the current property valuation within the District, subsequent millage requirements should approximate five.

3. CASH AND CASH EQUIVALENTS

At December 31, 2005 and 2004, the District has cash and cash equivalents (book balances) as follows:

	<u>2005</u>	<u>2004</u>
Non interest bearing demand deposits	51,779	65,932
Interest bearing demand deposits	1,239,581	1,164,689
Time deposits	72,500	70,000
Other	<u>150</u>	<u>150</u>
Total	<u><u>1,364,010</u></u>	<u><u>1,300,771</u></u>

These deposits are stated at cost, which approximates market. Under state law, these deposits or the resulting bank balances must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

Cash deposits at JP Morgan Chase, Louisiana are collateralized as follows at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Fair market value of securities pledged (GASB Category 3)	3,464,661	2,546,869
Current FDIC coverage	<u>100,000</u>	<u>100,000</u>
Total collateral	3,564,661	2,646,869
Collected cash balances	<u>884,642</u>	<u>949,607</u>
Collateralization (shortage) excess	<u><u>2,680,019</u></u>	<u><u>1,697,262</u></u>

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement No 3, R.S. 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the district that the fiscal agent has failed to pay deposited funds upon demand.

Cash deposits at Argent Trust totaling \$141,057 are fully collateralized by investment in U. S. Treasury obligations.

An investment of \$321,883 in the Louisiana Asset Management Pool is not categorized because it is not evidenced by securities that exist in physical or book entry form. Louisiana Asset Management Pool ("LAMP"), a local government investment pool, is administrated by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. While LAMP is not required to be a registered investment company under the Investment Company Act of 1940, its investment policies are similar to those established by Rule 2-a7, which governs registered money market funds. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. The fair value of investments is determined on a weekly basis to monitor any variances between amortized cost and market value. For purposes of determining participants' shares, investments are valued at amortized cost. LAMP is designed to be highly liquid to give participants immediate access to their account balances.

4. RECEIVABLES

Accounts receivable customers at December 31, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Accounts receivable – customers	60,858	59,453
Allowance for bad debts	<u>(4,900)</u>	<u>(4,900)</u>
Total accounts receivable	<u><u>55,958</u></u>	<u><u>54,553</u></u>

Provision is made for an estimate of uncollectible accounts with approved write-offs charged against that provision.

5. CAPITAL ASSETS

The following as a summary of capital assets:

	Beginning of Year	Additions	Transfers/ Retirements	End of Year
Capital assets, non-depreciable				
Land	37,500	-	-	37,500
Capital assets, depreciable				
Machinery and equipment	41,360	-	-	41,360
Sewer system	5,770,269	139,553	-	5,909,822
Total	5,811,629	139,553	-	5,951,182
Accumulated depreciation	2,381,509	186,170	-	2,567,679
Total capital assets being depreciated, net	3,430,120	(46,617)	-	3,383,503
Total capital assets	3,467,620	(46,617)	-	3,421,003

6. PENSION PLAN

The District has adopted a SIMPLE plan to benefit its employees. The plan calls for matching contributions up to 6% of gross pay in each calendar year to the SIMPLE IRA accounts of all eligible employees. Eligible employees include those that received at least \$300 in any previous year and expect to receive \$300 during any specific year. Payroll for the year ended December 31, 2005 of \$53,262 was covered by the plan. Contributions of \$3,196 were paid to the plan.

7. LONG-TERM LIABILITIES

Changes in long-term debt

The following is a summary of bond transactions of the District for the years ending December 31, 2005 and 2004:

	General Obligation		Revenue	
	2005	2004	2005	2004
Bonds payable - beginning of year	379,000	415,000	2,937,000	3,045,500
Less bonds retired	39,000	36,000	109,500	108,500
Bonds payable - end of year	340,000	379,000	2,827,500	2,937,000
Less portion classified as current	38,000	39,000	114,500	109,500
Long-term portion	<u>302,000</u>	<u>340,000</u>	<u>2,713,000</u>	<u>2,827,500</u>

Bonds payable at December 31, 2005 and 2004 are comprised of the following individual issues:

	2005	2004
General obligation bonds serviced through		
Ad Valorem tax collections:		
\$365,000 1983 bonds due in annual installments of principal and interest of approximately \$21,000 through 2023; interest at 5%	250,000	260,000
\$257,000 1998 refunding bonds due in annual installments of principal and interest of approximately \$33,300 through 2008; interest at 5%	90,000	119,000
Total general obligation bonds	<u>340,000</u>	<u>379,000</u>
Revenue bonds:		
\$520,000 1983 sewer revenue bonds due in annual installments of principal and interest of approximately \$30,000 through 2023; interest at 5%	360,000	372,000
\$1,150,000 2002 sewer revenue refunding bonds due in annual installments of principal of \$57,500 plus interest totaling \$51,808 for 2006 and reducing thereafter; interest at 5.3%	977,500	1,035,000
Total revenue bonds	<u>2,827,500</u>	<u>2,937,000</u>

In accordance with R. S. 39:562, the District is legally restricted from incurring long-term bonded debt in excess of 35% of the assessed value of taxable property. At December 31, 2005, the statutory limit is \$5,610,126, and outstanding bonded debt totals \$3,167,500.

The annual requirements to amortize all bond debt outstanding at December 31, 2005, are as follows:

Year ending December 31	Obligation		Revenue	
	Principal	Interest	Principal	Interest
2006	38,000	16,300	114,500	161,138
2007	42,000	14,300	115,500	155,173
2008	40,000	12,250	120,500	149,090
2009	10,000	11,000	121,500	142,694
2010	10,000	10,500	126,500	136,221
2011-2015	60,000	44,750	707,500	573,794
2016-2020	80,000	27,500	857,500	360,083
2021-2023	60,000	6,000	664,000	96,514
Total	<u>340,000</u>	<u>142,600</u>	<u>2,827,500</u>	<u>1,774,707</u>

Rate covenant-debt service charge

In accordance with the District's bond resolution authorizing the issuance of its refunding bonds, the District, through its Board of Commissioners, covenants to fix, establish and maintain such rates and collect such fees, rents or other charges for the services and facilities of the system, and all parts thereof, and to revise the same from time to time whenever necessary, and will always provide revenues in each year sufficient to pay the reasonable and necessary expenses of operating and maintaining the system in each year, the principal and interest maturing on the Bonds and the Parity Bonds in each year, all reserves or sinking funds or other payments required for such year by the Bond Resolution, and all other obligations or indebtedness payable out of the revenues of the system for such year, and which will provide revenues in each year after paying all reasonable and necessary expenses of operating and maintaining the system in such year, at least equal to 125% of the largest amount of principal and interest maturing in any future fiscal year on the Bonds and any Parity Bonds.

For the year ended December 31, 2005, the District's coverage was 147%. This coverage for 2004 was 131%.

Flow of funds; restrictions on use-sewer revenue

Under the terms of the bond indentures on outstanding Sewer Revenue Bonds, all income revenues (hereinafter referred to as revenue) of every nature, earned or derived from operation of the Utility System are pledged and dedicated to the retirement of said bonds, and are to be set aside into the following special funds:

Revenue is first deposited in Sewer Revenue Fund and shall first provide for the payment of the reasonable and necessary expenses of operating and maintaining the system.

Each month, there will be set aside into a fund called the "Bond and Interest Sinking Fund" an amount constituting 1/12 of the next maturing installment of principal and 1/12 of the next maturing installment of interest on the outstanding bonds. Such transfers shall be fully sufficient to assure the prompt payment of principal and interest installments as they become due, and may be used only for such payments.

There shall also be set aside into a "Sewer Reserve Fund" an amount equal to 5% of the principal and interest payments required during the current fiscal year until there shall have been accumulated in the Reserve Account an amount equal to the maximum principal and interest requirements in any one maturity year. This fund reached its maximum required amount during 1999. Reserve requirements do not apply to the 2002 refunding bonds.

Such amounts may be used only for the payment of maturing bonds and interest coupons for which sufficient funds are not on deposit in the Bond and Interest Sinking Fund and as to which there would otherwise be default.

Funds will also be set aside into a Depreciation and Contingency Fund an amount equal to 5% of the principal and interest payments required during each fiscal year. Money in the fund may be used for the making of extraordinary repairs or replacements to the system which are necessary to keep the system in operating condition and for which money is not available as maintenance in operation expense. Money in this fund may also be used to pay principal or interest on the bonds falling due at any time there is not sufficient money for payment in the other bond funds.

8. LOANS PAYABLE – DOTD

The Louisiana Department of Transportation and Development (DOTD) has loaned the District \$134,892 pursuant to Act 319 of the Louisiana Legislature. The funds were used to relocate sewer lines. The Act does not have any stated repayment terms or interest rates. DOTD can demand repayment when the District permits any additions in a state maintained highway right-of-way. A separate fund called "DOTD Sinking Fund" was started during 1991 for eventual repayment of this loan if necessary. The District plans to fully fund the liability. At December 31, 2005, the account balance was \$126,127.

9. STATEMENT OF CASH FLOWS

Reconciliation of operating income to net cash provided by operating activities:

	<u>2005</u>	<u>2004</u>
Operating income	201,963	170,953
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	186,170	184,264
Change in assets and liabilities:		
Accounts receivable	(1,405)	3,285
Prepaid expenses	8,045	(15,581)
Accounts payable	(4,469)	8,618
Accrued compensated absences	3,643	-
Net cash provided by operating activities	<u>393,947</u>	<u>351,539</u>

10. RISK MANAGEMENT

Risks of loss are covered through the acquisition of commercial insurance. The District has incurred only small claims in the past for damages that were substantially covered by insurance.

Schedules of insurance coverage in effect at December 31, 2005 is as follows:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>	<u>Effective Dates</u>
American Alternative	Commercial Liability	1,000,000	10/05 – 10/06
American Alternative	Fidelity Bond	1,000,000	10/05 – 10/06
American Alternative	Commercial Property	478,000	10/05 – 10/06
LA Work Comp	Workman's Comp	Statutory	02/05 – 02/06
American Alternative	Auto	1,000,000	10/05 – 10/06
American Alternative	Officers & Directors	1,000,000	10/05 – 10/06

11. LITIGATION AND CLAIMS

In the event the District permits with the DOTD for any subsequent construction, loans totaling \$134,892 at December 31, 2004 become payable on demand by the DOTD. Funds set aside in the DOTD sinking fund in the amount totaling \$126,127 through December 31, 2005, have been provided for this contingency.

SUPPLEMENTAL INFORMATION

CADDO SEWERAGE DISTRICT NO. 7
SCHEDULE OF COMPENSATION PAID BOARD MEMBERS
FOR THE YEAR ENDED DECEMBER 31, 2005

The following is a schedule of commissioners of the District and amounts paid them per diem for the year ended December 31, 2005:

<u>Commissioner</u>	<u>Per Diem</u>	<u>Term Expiration</u>
Calvin E. Millender	1,020	11-1-2007
R D Van Aken	1,020	11-1-2006
Kenneth W. Fedd	960	11-1-2009
Dean Erwin	900	11-1-2008
George Wilson	<u>1,020</u>	11-1-2008
Total	<u>4,920</u>	

Richard C. McCallister
Certified Public Accountant

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Certified Public Accountants

Member
Society of Louisiana
Certified Public Accountants

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Directors
Caddo Sewerage District No. 7
Shreveport, Louisiana

I have audited the financial statements of Caddo Sewerage District No. 7, Shreveport, Louisiana, a component unit of Caddo Parish, Louisiana, as of and for the years ended December 31, 2005 and 2004 and have issued my report thereon dated May 5, 2006. I have conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Compliance

As part of obtaining reasonable assurance about whether Caddo Sewerage District No. 7 financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Caddo Sewerage District No. 7 internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control structure over financial reporting and its operation that I consider to be a material weakness. However, I noted other matters involving the internal control over financial reporting that I have reported in the accompanying Schedule of Findings and Questioned costs and identified as finding 2005-1.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.

 Richard C
McCallister

Digitally signed by
Richard C. McCallister
DN: cn=Richard C.
McCallister, o=CFA,
email=
Date: 2006.05.05
14:12:25 -0500

Richard C. McCallister
Shreveport, Louisiana
May 5, 2006

CADDO SEWERAGE DISTRICT NO. 7
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Caddo Sewerage District No. 7.
2. One reportable condition relating to the audit of the financial statements is reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

2005-1 Segregation of Duties

Condition: Due to the District sometimes being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the system. Currently, bank reconciliations are prepared by outside professionals. In addition, general ledger accounting is inspected by an outside accounting professional.

Criteria: When practical, personnel should have appropriate segregation of duties.

Effect: Accounting controls over accounts receivable, collections, and general ledger accounting are compromised.

Recommendation: Using outside services for the general ledger accounting and bank reconciliations assists in mitigating the condition. The Board should closely monitor the situation.

CADDO SEWERAGE DISTRICT NO. 7
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2005

FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

2000-1 Segregation of Duties

Condition: Due to the District being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the system.

Recommendation: None.

Current Status: Outside services are used for general ledger accounting and bank reconciliations. As to all other functions, the condition remains.

**CADDO SEWERAGE DISTRICT NO. 7
P.O. BOX 7606
SHREVEPORT, LOUISIANA 71137**

May 5, 2006

CORRECTIVE ACTION PLAN

Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana

Farmers Home Administration
Coushatta, Louisiana

Caddo Sewerage District No. 7 respectfully submits the following corrective action plan for the year ended December 31, 2005.

Name and address of accounting firm:

Richard C. McCallister, CPA
P.O. Box 44046
Shreveport, Louisiana 71134

Audit period:

December 31, 2005

The findings from the December 31, 2005 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITION

2005-1 Segregation of Duties

Condition: Due to the District sometimes being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the system.

Action Taken: No additional action is being taken at this time. The Board will continue to closely monitor the situation.

Very truly yours,

CADDO SEWERAGE DISTRICT NO. 7

By:  **JoAnn Witkowski**

Digitally signed by JoAnn
Witkowski
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o=Caddo Parish Sewerage
District No. 7, c=US
Date: 2006.05.29 14:43:27
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